

## City Of Alexandria, Virginia

### MEMORANDUM

DATE: APRIL 14, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

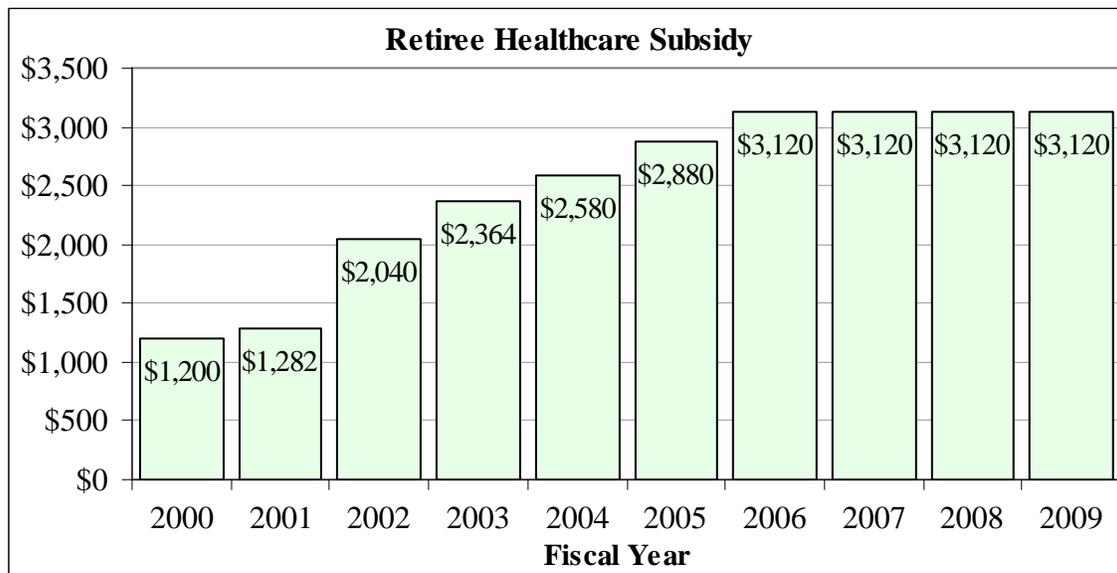
FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 94 : RETIREE HEALTH SUBSIDY

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City Council requested information on the retiree health insurance subsidy. The subsidy is proposed to remain at \$260 per month, or \$3,120 per year, in FY 2009. The subsidy has remained stable since FY 2006, but had been substantially increased from FY 2000 to FY 2006 (see below). The primary reason to stop the growth in this subsidy was to cap the potential future liability of retiree health care costs.<sup>1</sup>

The chart below shows the amount of the annual subsidy given to eligible retirees for healthcare coverage. This subsidy may be applied to the City plan if the retiree is enrolled, or towards any non-City government plan that the eligible retiree participates in. In order to receive the subsidy, a retiree has to be enrolled in a City health plan at retirement. This provision of a subsidy is less expensive than covering all retirees under a City-insured health insurance plan.

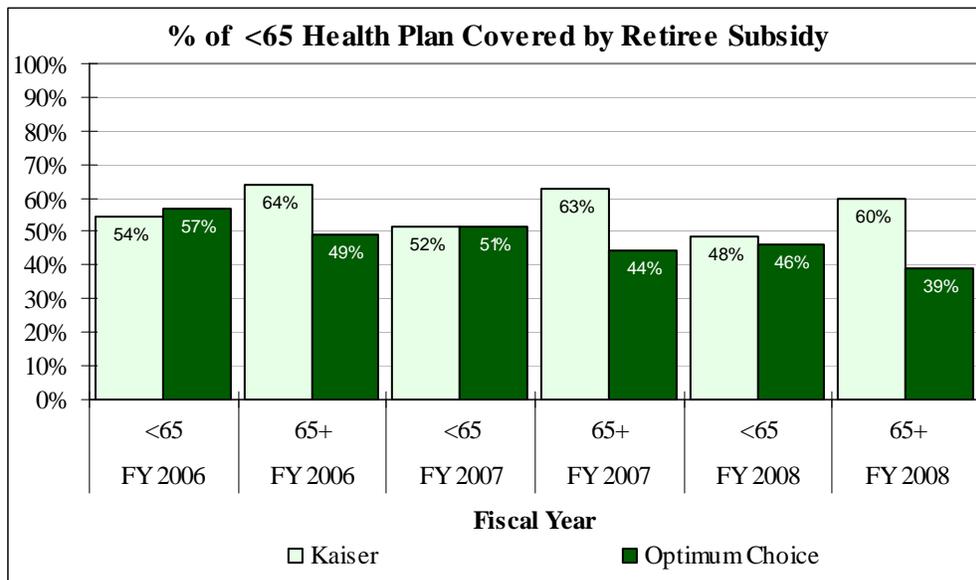


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<sup>1</sup> If the City did provide an annual increase in the subsidy amount, then under the GASB 45 accounting rule, the actuarial calculations of future liability would have increased tens-of-millions of dollars.

Enrolled employees who retire before age 65 may continue in one of the City’s two health plans. When a retiree reaches age 65, the retiree is eligible to enroll in federally provided Medicare. It should be noted that some retirees younger than 65 years old are in an over-65 year old plan because they are eligible for Medicare due to a disability. In addition, there are a small number of retirees over the age of 65 in the under 65 plan because they have not taken the opportunity to apply for Medicare. In the future, it is possible that the City could choose to decrease the subsidy to the Medicare eligible retirees to the amount given to those actually in the Medicare plans.

Based on the actual average usage by under age 65 retirees in FY 2006, FY 2007 and FY 2008 through February, the following chart shows that the \$3,120 annual subsidy has covered from about 39% to 63% of premium costs for retirees not enrolled in Medicare. The subsidy covers less of the Optimum Choice average premium. This is most likely a reflection of the fact that Point of Service (POS) plans are more expensive than HMO plans; and more retirees may be enrolled in the Optimum Choice POS than Kaiser’s POS since it is the less expensive POS plan. There are 280 under age 65 retirees in this group, 88 of which are not enrolled in either City plan but still receive the subsidy for their own plan.



Based on the actual average usage of over age 65 retirees in FY 2006, FY 2007 and FY 2008 through February, the following chart shows that the \$3,120 annual subsidy has covered from about 50% to 100% of premium costs for retirees enrolled in Medicare. The subsidy here also covers less of the Optimum Choice average premium. Kaiser does not offer a POS plan for retirees over age 65. There are 379 under age 65 retirees in this group, 150 of which are not enrolled in either City plan but still receive the subsidy for their own plan.

**% of >65 Health Plan Covered by Retiree Subsidy**

